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Green Transaction Evaluation

Washington Suburban Sanitary District Consolidated Public Improvement Bonds Of 2023 (Second Series; Green Bonds)

Feb. 3, 2023

The Washington Suburban Sanitary District (the district or WSSC Water) was created in 1918 and operates as a public corporation of the state of Maryland under the Public Utilities Article. WSSC Water provides water supply and sewage disposal to nearly 2 million people in Montgomery and Prince George's counties in Maryland. WSSC Water is issuing consolidated public improvement bonds, the second series of which will be green bonds worth \$20 million. The net proceeds of the green bonds will provide funding for (i) the planning, design, and construction of improvements to a water filtration plant in order to reduce solids discharge, (ii) the planning, design, and construction or rehabilitation of large diameter water transmission mains and large system valves and other appurtenances including meter and pressure reducing valves, (iii) other projects that have been designated by the commission as "green projects", and (iv) the cost of issuance. The bonds will be labeled green bonds, and all financed projects fall within the scope of our Green Transaction Evaluation. Debt service is to be paid from the revenue generated by the district from fees, charges, rates and assessments, and other available funds.

In our view, WSSC Water's consolidated public improvement bonds of 2023 (second series; green bonds) is aligned with:

 Green Bond Principles, ICMA, 2021

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Environmental benefit score



Governance and reporting opinion



Transaction Evaluation

92/100

Project Description

The district will use the green bond proceeds to improve the water system throughout the service area of Prince George's and Montgomery counties. Aging infrastructure, a consent decree, and the desire to improve water sustainability and reduce pollution necessitated the projects. WSSC Water expects the projects to improve efficiencies in the district's operations and the green bonds will keep the work previously financed by 2021, 2020, and 2019 green bonds moving forward.

The first project is a component of the Potomac Water Filtration Plant (WFP) Consent Decree program. The district is required to undertake short-term operational changes and capital improvements at the Potomac WFP to reduce solids discharged into the river and achieve quality requirements established by the Maryland Department of the Environment and incorporated into a new discharge permit. This project will allow the district to address water quality and pollution prevention, conservation of terrestrial and aquatic biodiversity, and the public health needs of its customers. The second project is the large diameter water pipe and large valve rehabilitation program, which is expected to reduce water loss and support sustainable water management. Our Green Transaction Evaluation includes the positive environmental impact from the increase in available water (reduction in water loss).

The projects were designed to be resilient over their expected lifetime to a range of climate-related hazards, including flooding, storms (or storm surge), and extreme heat. Resilience to at least 1% of the most severe events (for all hazards projected to occur on an annual basis) and long-term changes (change in mean precipitation and temperature) has been factored into the projects'/assets' designs. The district has identified vulnerability and risks, accounted for the impacts of climate change on local systems, and identified resiliency and mitigation strategies on all riverine coastal treatment and pumping facilities. For example, it used flood modeling to estimate the chance of a 100-year storm affecting the pipe system in 2065, and additional projects range from 2020 to 2100. A range of climate projections were used including Representative Concentration Pathway (RCP) RCP8.5, which align to a mean global temperature increase of around 2° C and 4° C or more, respectively, by 2100. An RCP is a GHG concentration trajectory adopted by the IPCC, which describes different future climates.

Summary of environmental benefit score

Location	Environmental sector	Environmental project type	KPI(s)	Benefit ranking	Hierarchy score and tier	Benefit score	Use of proceeds (mil. xxx)
Montgomery County, Maryland	Water	Wastewater Treatment with No Energy Recovery	Carbon Intensity Water Use	85	Score: 100 Tier 2	96	15
Montgomery & Prince George's Counties, Maryland	Water	Water Distribution Network Improvements	Carbon Intensity Water Use	87	Score: 75 Tier 5	79	5
Weighted average benefit score and total use of proceeds				92		20	

Note: To disaggregate the score breakdown, please refer to "[Analytical Approach: Second Party Opinions and Transaction Evaluations](#)," published Dec. 7, 2022.


Transaction Evaluation Summary

Environmental benefit

Score **92/100**

The projects' expected reductions in water loss and solids discharged compared with the baseline support the environment benefit score of 92. We believe these projects will have a significant environmental impact and are especially beneficial because the Washington, D.C./Maryland area is under extremely high water stress (a large population in a relatively small area translates to high demand for water services).


Use of proceeds

Alignment  WSSC Water's green bonds are aligned with this component of the GBP.

Commitments score Limited Satisfactory **Strong** Advanced

WSSC Water commits to using the net proceeds of the issuance solely to finance eligible green projects outlined in its documentation and identifies the relevant environmental objectives of each project.


Process for project evaluation and selection

Alignment  WSSC Water's green bonds are aligned with this component of the GBP.

Commitments score Limited Satisfactory **Strong** Advanced


WSSC Water's Green Bond Framework and Green Bond Annual Report clearly outline the process for project evaluation and selection, including the relevant internal bodies and committees. Projects are also subject to a stakeholder consultation process.

Management of proceeds

Alignment  WSSC Water's green bonds are aligned with this component of the GBP.

Green bond proceeds are earmarked and allocated to a special account from which disbursements are made. The documentation also outlines the personnel responsible for ensuring green bond proceeds are allocated appropriately as well as the temporary management of funds before disbursement.

Reporting

Alignment  WSSC Water's green bonds are aligned with this component of the GBP.

Disclosure score Limited **Satisfactory** Strong Advanced

Green Transaction Evaluation

WSSC Water commits to annual allocation and impact reporting of projects financed with green bonds, including project description, environmental benefit, and key performance indicators until full allocation of proceeds. The entity has also committed to a third-party audit for green bond allocation.

Transaction Evaluation Assessment

Environmental benefit

The environmental benefit score provides a relative ranking of the environmental benefits of projects financed by a given financial transaction. The score is a weighted average of the project's benefit ranking based on project type and location, and the project's placement within our environmental contribution hierarchy.

Score **92/100**

Supporting the strong environmental benefit score of 92 is the green bond proceeds allocation to projects that will improve water reliability and quality while also reducing solids and operational inefficiencies. While the solids removal project represents significant enhancements to existing water systems and is thus located at the top of our environmental contribution hierarchy, we view the pipeline replacement project as a marginal system enhancement and it is thus in the middle of our environmental contribution hierarchy.

Water-related mitigation projects focus on using water resources and networks efficiently and improving the quality of water treatment for various end uses and the environment. WSSC Water has explicitly prioritized investments in reducing water loss and reducing solids to improve quality and reduce pollution. These priorities were chosen commensurate with environmental principles and the district's asset and climate management plans, and most projects in this sector address regional water stress, which is relatively high in the D.C./Maryland area.

Use of proceeds

Our alignment opinion focuses on the commitments and clarity on how the proceeds are used. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

 WSSC Water's green bonds are aligned with this component of the GBP.

Commitments score

Limited

Satisfactory

Strong

Advanced

We consider WSSC Water's overall use of proceeds commitments to be strong compared with standard market practice for sustainable debt.

WSSC Water is committed to using the green bond proceeds for eligible projects that have the environmental benefits of pollution prevention/control and sustainable water management. In its green bond framework, WSSC Water clearly details the categories and individual criteria of eligible green projects. In its green bond annual report, the entity outlines the relevant sustainability objectives and benefits for each individual project category. In addition, the framework identifies how the selected projects fall under eligible project categories and highlights relevant key performance indicators at the project level. We would view WSSC Water's use of proceeds as stronger if the entity clearly communicated how each project contributed to the company's overall sustainability strategy.

Process for project evaluation and selection

Our alignment opinion focuses on the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

 WSSC Water's green bonds are aligned with this component of the GBP.

Commitments score

Limited

Satisfactory

Strong


Advanced

We consider WSSC Water's overall process for project evaluation and selection commitments to be strong compared with standard market practice for sustainable debt.

WSSC Water has a robust process for selection of eligible green projects. The entity ensures that each project complies with local and regional environmental laws and regulations and establishes objectives, targets, and best management and monitoring practices. Each project must align with WSSC Water's 30-year asset management plan and business case studies, and projects are reviewed thoroughly by multiple external stakeholders and internal bodies. However, the entity does not identify any relevant ESG subject-matter expertise within these bodies. Our view WSSC Water's process for project evaluation and selection would be stronger if the entity specifies where in the process it identifies and manages potential social risks of financed projects.

Management of proceeds

Our opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 WSSC Water's green bonds are aligned with this component of the GBP.

WSSC Water's green bond annual report notes that proceeds from green bond issuance will be held in a separate account and used exclusively to fund green projects. The entity will transfer bond proceeds into its general investment pool after expenses are verified to be green bond eligible, and disbursements are made over several years depending on when each project milestone is reached. WSSC Water identifies the two individuals responsible for the allocation of green bond proceeds and the framework outlines mechanisms for the temporary management of unused funds as well as the refunding protocol. WSSC Water's investment policy is in accordance with local government regulations for similar entities, and includes U.S. government and agency securities, certificates of deposit, and commercial paper, among other investments.

Reporting

Our opinion focuses on how clearly the financing documentation describes the issuer's level of disclosure and reporting practices. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

 WSSC Water's green bonds are aligned with this component of the GBP.

Disclosure score

Limited

Satisfactory

Strong

Advanced

We consider WSSC Water's overall reporting practices to be satisfactory compared with standard market practice for sustainable debt.

WSSC Water commits to producing an annual report that details how it is using the green bond proceeds to finance selected projects, a description of the selected projects, and details of the environmental benefits resulting from each project until full allocation of the bond proceeds. The

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entity also commits to publishing a third-party audit of its allocation report in accordance with attestation standards established by the American Institute of Certified Public Accountants. WSSC Water reports on project impact, including ongoing project status, timelines for completion, and key performance indicators for each eligible project until full allocation of bond proceeds. WSSC Water also commits to disclosing the key underlying methodology used to calculate the quantitative key performance indicators. We would view the reporting disclosure more strongly if WSSC Water acquired independent third-party verification or audit of reported impact metrics, as recommended by the Principles. We note that the publication of the 2022 green bond Impact report has been delayed; it has been less than two years since the last report. WSSC Water conveyed that publication is forthcoming.

Water Contribution Hierarchy

	Project
Tier 2: System enhancements	Recycling wastewater to supply potable municipal water Recycling wastewater to supply non-potable water for agricultural uses Recycling wastewater to supply non-potable water for agricultural uses Wastewater treatment with no energy recovery Wastewater treatment with energy recovery
Tier 5: Marginal system enhancements	Reducing water losses in the water distribution network
Tier 6: Marginal system enhancements with material negative environmental consequences	Water desalination to supply potable municipal water
Tier 7: Demand-side improvements	Conservation measure in residential buildings Conservation measure in commercial buildings Conservation measure in industrial buildings Smart metering in residential buildings

Green Transaction Evaluation

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